



RECOVERY ACT

*Health Coverage Tax Credit Recovery Act
Provisions Were Timely Implemented, but
Program Capacity Is Limited*

September 24, 2010

Reference Number: 2010-41-122

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



HIGHLIGHTS



HEALTH COVERAGE TAX CREDIT RECOVERY ACT PROVISIONS WERE TIMELY IMPLEMENTED, BUT PROGRAM CAPACITY IS LIMITED

Highlights

Final Report issued on September 24, 2010

Highlights of Reference Number: 2010-41-122 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Health Coverage Tax Credit (HCTC) is a refundable tax credit and was created to assist certain workers who lost their jobs due to foreign trade and retirees who receive payments from the Pension Benefit Guaranty Corporation. Our review identified that processes were developed to ensure HCTC payments were timely and accurately processed. All payments TIGTA reviewed were sent to the Health Plan Administrators on time to ensure the continuity of the individual's health coverage.

WHY TIGTA DID THE AUDIT

The American Recovery and Reinvestment Act of 2009 (Recovery Act) included provisions to help make health coverage more affordable. These provisions are expected to improve the availability of health coverage to eligible individuals and their qualifying family members. In Calendar Year 2008, the Internal Revenue Service (IRS) processed 159,012 payments totaling \$121.8 million, which included \$44.1 million in payments from individuals and \$77.7 million in Federal Government subsidies. Our overall objective was to evaluate the efficiency and effectiveness of HCTC payment processing.

WHAT TIGTA FOUND

The IRS timely and accurately implemented provisions relating to the Advance Monthly Payment Option included in the Recovery Act. Our review identified that the IRS increased the Federal Government portion of health insurance

premiums paid from 65 percent to 80 percent. The IRS also implemented processes to enable individuals to request reimbursement for premiums paid while enrolling in the Advance Monthly Payment Option.

Although TIGTA found that payments were timely and accurately processed, the IRS will face challenges if there is a significant increase in the number of monthly enrolled participants. Current IRS systems are built to support only 57,000 enrolled participants in any given month. In addition, TIGTA identified that eligibility indicators for 3,661 individuals in Calendar Year 2009 could not be posted to the respective individuals' IRS tax account. HCTC Program management noted that a business decision was made to not resolve these unpostable conditions because they represent less than 1 percent of the accounts for which an indicator is added. Not establishing a process to resolve unpostable situations can have a negative impact on these individuals and result in taxpayer burden.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, develop a process to ensure accuracy of Health Plan Administrators' information on the IRS financial system and HCTC financial system; ensure individuals participating in the Advance Monthly Payment Option receive accurate Health Coverage Tax Credit (HCTC) Advance Payments (Form 1099-H) payment information; and identify and resolve unpostable records to ensure eligibility indicators are added to individuals' tax accounts.

The IRS agreed with two of the three recommendations. The IRS disagreed with our recommendation to ensure individuals receive accurate Forms 1099-H. IRS management indicated that individuals receive accurate Forms 1099-H and the form is for information only. Notwithstanding IRS management's response, TIGTA found that some individuals did receive inaccurate Forms 1099-H. Form 1099-H needs to be accurate because individuals receiving Forms 1099-H use this information when preparing their tax returns.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 24, 2010

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: *Margaret E. Bezz*
(for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Health Coverage Tax Credit Recovery Act Provisions Were Timely Implemented, but Program Capacity Is Limited (Audit # 201040106)

This report presents the results of our review to evaluate the efficiency and effectiveness of the Health Coverage Tax Credit payment processing. This audit was conducted as part of the Treasury Inspector General for Tax Administration Fiscal Year 2010 Annual Audit Plan and addresses the major management challenges of Taxpayer Protection and Rights and Erroneous and Improper Payments and Credits.

The American Recovery and Reinvestment Act of 2009 (Recovery Act)¹ provides separate funding to the Treasury Inspector General for Tax Administration through September 30, 2013, to be used in oversight activities of Internal Revenue Service programs. This audit was conducted using Recovery Act funds.

Management's complete response to the draft report is included in Appendix VII.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.

¹ Pub. L. No. 111-5, 123 Stat. 115 (2009).



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Abbreviations

HCTC	Health Coverage Tax Credit
IRS	Internal Revenue Service
PBGC	Pension Benefit Guaranty Corporation
TIN	Taxpayer Identification Number



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Background

The Health Coverage Tax Credit (HCTC) was signed into law on August 6, 2002, as a component of the Trade Adjustment Assistance Reform Act of 2002.¹ The HCTC is a refundable tax credit² and was created to assist certain workers who lost their jobs due to foreign trade and who receive benefits through the Trade Adjustment Assistance or Alternative Trade Adjustment Assistance programs as well as eligible recipients of pensions that are being paid by the Pension Benefit Guaranty Corporation (PBGC).³

The intent of the HCTC is to make health coverage more affordable for certain groups of people who otherwise might not be insured.

The Internal Revenue Service (IRS) administers the HCTC in partnership with other Federal agencies, States, and the private health care industry. State workforce agencies, the Department of Labor, and the PBGC are responsible for identifying potentially eligible individuals. The State workforce agencies and the PBGC transmit records of potentially eligible individuals to the IRS. States transmit this information daily and the PBGC transmits monthly. The IRS created the HCTC Program office to oversee the administration of the HCTC. The IRS is responsible for ensuring that potentially eligible individuals meet program requirements and that monthly payments are accurately processed. This includes:

- Sending monthly invoices to eligible individuals for their share of the monthly medical premium.
- Processing monthly payments from individuals.
- Combining the individual's payment with the Federal Government's share of the monthly medical premium and forwarding the full monthly premium payment to the Health Plan Administrator.
- Providing annual information detailing the amounts paid by the individual and Federal Government for monthly health insurance premiums for posting to individuals' tax accounts.

¹ Pub. L. No. 107-210, 116 Stat.933 (2002).

² For this type of tax credit, the taxpayer can receive a refund even if they did not owe any taxes or earn any income.

³ When an employer cannot continue paying pensions to its retirees, the PBGC may be requested to take over the responsibility of paying pension benefits to the employer's retirees.



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The HCTC can be obtained in the following ways:

- **Annually** - Individuals can claim the credit on their annual Federal tax return by preparing and including a Health Coverage Tax Credit (Form 8885).
- **Advance Monthly** - This option allows more affordable and accessible health coverage for eligible individuals because a significant percentage of their monthly health insurance premium is subsidized by the Federal Government. Individuals can submit an application to the IRS requesting enrollment in the Advance Monthly Payment Option. The IRS ensures the individual meets program requirements.
- **Combination** - Some individuals claim the credit using a combination of claiming the credit on their annually filed tax return and also receiving the advance monthly credit.

Figure 1 shows the number of individuals participating in the Advance Monthly Payment Option during Calendar Years 2007 through 2009.

Figure 1: Number of HCTC Participants Participating in the Advance Monthly Payment Option for Calendar Years 2007 through 2009

Calendar Year	Advance Monthly Payment Option		
	Number of Monthly Participants	Number of Monthly Payments ⁴	Amount of Monthly Payments ⁵
2007	21,877	171,227	\$127 M
2008	20,489	159,012	\$122 M
2009	26,960	192,373	\$148 M

Source: IRS' HCTC Program office.

Contractors and other Federal agencies assist in the Advance Monthly Payment processing

The Health Insurance Tax Credit Administration appropriation provides funding for contractor support to administer the HCTC Advance Monthly Payment Option. The HCTC Payment Processing Operation uses several facilities nationwide for the processing of Advance Monthly Payments. Appendix V provides a description of these facilities.

⁴ This is the number of payments sent to Health Plan Administrators for individuals that participate in the Advance Monthly Payment Option.

⁵ This consists of the individual's payment for his or her share of the health premium, the Federal Government subsidized payment, and the individual's payment for other health premiums (e.g., dental or vision benefits that are not part of the individual's comprehensive health plan) that together pay in full the individual's monthly health premium.

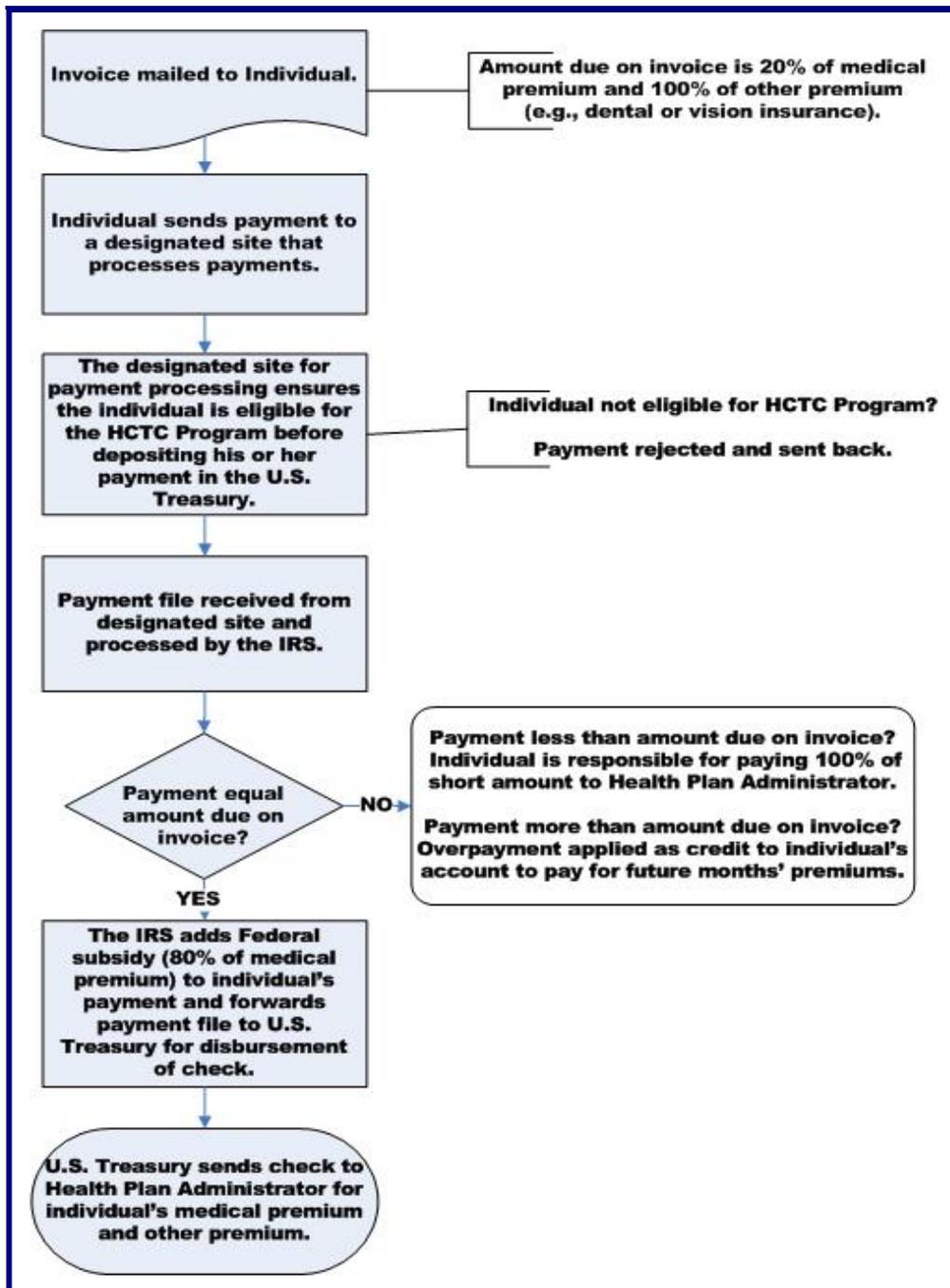


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Figure 2 details the payment processing for the Advance Monthly Payment Option.

Figure 2: Payment Process for Advance Monthly Payment Option



Source: HCTC Payment Processing Flowchart.



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The American Recovery and Reinvestment Act of 2009 (Recovery Act)⁶ activities require a high level of scrutiny, and taxpayer dollars spent on economic recovery must be subject to unprecedented levels of transparency and accountability. Federal agencies are required to ensure Recovery Act funds are used for authorized purposes and appropriate measures are taken to prevent fraud, waste, and abuse. As such, the Treasury Inspector General for Tax Administration is required to monitor IRS implementation of Recovery Act provisions, and this audit was conducted to meet those requirements.

This review was performed at the HCTC Program office in Washington, D.C., HCTC Lockbox office in St. Louis, Missouri, HCTC Finance and Accounting office in Houston, Texas, HCTC Processing Center in San Antonio, Texas, and the IRS Beckley Finance Center in Beckley, West Virginia, during the period November 2009 through May 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁶ Pub. L. No. 111-5, 123 Stat. 115 (2009).



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Results of Review

Advance Monthly Payments Were Timely and Accurately Processed

The IRS is responsible for processing and approving all payments on behalf of HCTC participants. The IRS has developed processes and has taken actions in an effort to ensure the accurate and timely processing of payments for those individuals participating in the Advance Monthly Payment Option. In Calendar Year 2008, the IRS processed 159,012 payments totaling \$121.8 million, which included \$44.1 million in payments from individuals and \$77.7 million in Federal Government subsidies.

Processes have been developed to ensure accurate and timely processing of HCTC Advance Monthly Payments.

Our review of a statistically valid sample of Advance Monthly Payments associated with 90 individuals in Calendar Year 2008 found that payments were timely and accurately processed. There were a total of 731 payments processed for these individuals. We traced these payments from the receipt of the participating individual monthly premium payment through to the issuance of the payment to the Health Plan Administrator. We found that all payments were sent to the Health Plan Administrators on time to ensure the continuity of the individual's health coverage.

The accuracy of payment processing is primarily attributable to the multiple monthly accounting reconciliations the IRS performs. These reconciliations are used to ensure the accuracy of Advance Monthly Payment processing from receipt of an individual's payment at the bank to the posting of the payment that is transmitted to the Health Plan Administrator to an individual's tax account. These reconciliations are designed to identify discrepancies between the multiple systems used by the various Government agencies and the contractor involved in the processing of the Advance Monthly Payments. If discrepancies are identified, efforts are initiated to resolve the discrepancy. Figure 3 provides a brief description of the reconciliations performed by the IRS.



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Figure 3: Reconciliations of Advance Monthly Payment Option

Category	Description of IRS Actions ⁷
Designated Site for Processing Individuals' Payments	<ul style="list-style-type: none"> • Verifies that the site's deposit of individuals' payments agrees with the Government's deposit and HCTC payment records.
Credit Card	<ul style="list-style-type: none"> • Confirms the deposit of individuals' payments by credit card agrees with the records of the credit card processing center.
Health Plan Administrators	<ul style="list-style-type: none"> • Verifies that the amount received from an individual is paid to the Health Plan Administrator. • Identifies differences between the individuals' payments and payments sent to Health Plan Administrators. • Verifies the amount paid to the HCTC Program's Health Plan Administrators agrees with the Government's Health Plan Administrators payments. • Compares the total General Ledger expense amount with the total Health Plan Administrators payment runs.
Returned Funds/Repayments	<ul style="list-style-type: none"> • Verifies returned funds/repayments ending balance agrees with accounting records. • Low credit balance on an individual's account or small over-refund received from an individual or Health Plan Administrator is moved from account.
Refunds	<ul style="list-style-type: none"> • Reconciles the Refund Voucher amounts forwarded to the IRS with the IRS Finance Center's refund amounts. • Researches individuals' accounts with credits to determine whether appropriate to issue a refund.
Accounts Receivable and Accounts Payable	<ul style="list-style-type: none"> • Identifies any receivable accounts that do not have a zero balance and verifies all payable accounts have been paid.

Source: IRS' HCTC Program.

Our review of reconciliations performed during the period January 2008 to September 2009 showed that each month the IRS performed the reconciliations designed to ensure payments were accurately processed. In addition, our validation of the December 2008 reconciliations identified that the discrepancies identified from these reconciliations were timely resolved by the IRS.

⁷ These steps are performed by a contractor for the IRS.



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Actions Were Taken to Implement the Health Care Tax Credit Provisions Included in the American Recovery and Reinvestment Act of 2009

The IRS timely and accurately implemented provisions relating to the Advance Monthly Payment Option included in the Recovery Act. The Recovery Act included provisions to help make health coverage more affordable. These provisions are expected to improve the availability of health coverage to eligible individuals and their qualifying family members. Provisions include:

- Changing the Federal Government portion of health insurance costs. The Federal Government subsidy of the health care premiums increased from 65 percent to 80 percent for qualified health insurance premiums. The increase covers the period April 2009 through December 2010.
- Allowing individuals to receive reimbursement for premiums paid while enrolling in the Advance Monthly Payment Option (beginning August 2009 through December 2010) rather than waiting to file their annual tax return to claim the HCTC.
- Allowing family members to continue receiving the HCTC after certain life events.
- Expanding taxpayer eligibility in the Program.

Our review confirmed that the IRS increased the Federal Government portion of health insurance premiums paid from 65 percent to 80 percent. The IRS developed the necessary programming to increase the Federal Government portion for individuals participating as of April 2009. The increased portion was reflected in participants' April 2009 invoices that were sent prior to the April 17, 2009, due date specified in the legislation.

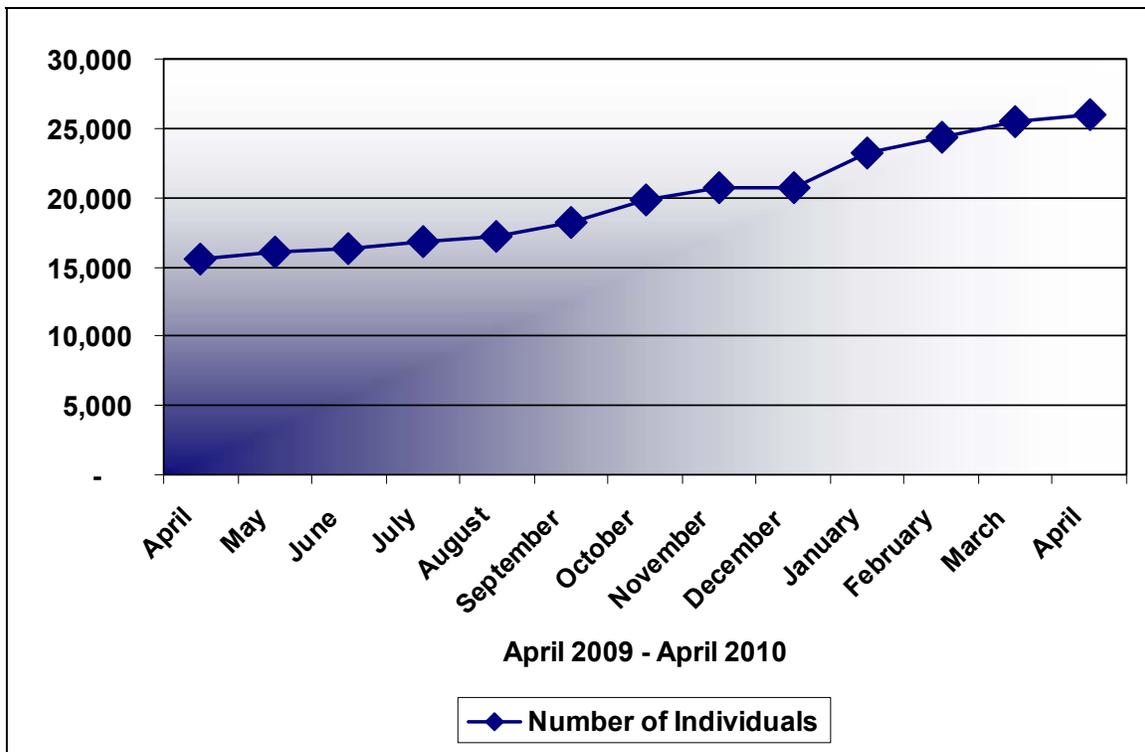
In addition, the number of individuals participating in the Advance Monthly Payment Option during the period April 2009 to April 2010 increased 67 percent. Figure 4 shows that, since the Recovery Act raised the percentage of health insurance premiums paid by the Government, the number of individuals participating in the Advance Monthly Payment Option increased from 15,553 individuals in April 2009 to 25,960 in April 2010.



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Figure 4: Participation in the Advance Monthly Payment Option Since the Recovery Act Increased the Percentage of Health Insurance Premiums Paid by the Government



Source: IRS' HCTC Program.

Furthermore, the IRS implemented processes to enable individuals to request reimbursement for premiums paid while enrolling in the Advance Monthly Payment Option. To implement the requirements of the Recovery Act, the IRS:

- Developed The Health Coverage Tax Credit (HCTC) Reimbursement Request (Form 14095)⁸ and associated instructions. Individuals use this form to request reimbursement for 80 percent of the premiums that they paid directly to a qualified health plan while enrolling in the monthly HCTC Program. For example:

⁸ See Appendix VI for an example of Form 14095.



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Example

Individual A pays monthly health premiums of \$450 directly to his or her health plan for the months September, October, and November 2009. Individual A is eligible to receive the HCTC and elects to participate in the Advance Monthly Payment Option, completing the Monthly HCTC Registration Form to enroll in this option. When registering for the Advance Monthly Payment Option, Individual A can now request reimbursement for 80 percent of the \$450 the individual paid for his or her health insurance premiums for the months of September through November 2009. Once the HCTC Program processes the registration form, reimbursement request, and supporting documentation for each month, Individual A will receive a reimbursement credit totaling \$360 (80 percent of the \$450 they paid) for each month on his or her HCTC account.

- Added a Reimbursement Request section to the HCTC Program Kit⁹ for an individual to request reimbursement of premiums he or she paid when registering for the Advance Monthly Payment Option.
- Updated the IRS web site (IRS.gov) to include information regarding the reimbursement option resulting from provisions in the Recovery Act.
- Established a work site staffed by 11 Invoice Verification Customer Service Representatives and 6 accountants located in San Antonio, Texas, to process reimbursement claims. To assist these individuals in the accurate processing of the reimbursement claims, the IRS developed a training manual and trained these individuals.

To claim a reimbursement, an individual must prepare either the stand alone Form 14095 or The Health Coverage Tax Credit (HCTC) Reimbursement Request Form (Form 14095-A) in the *Health Care Tax Credit Program Kit* (Publication 4181) and mail the form to the IRS' San Antonio site for processing. Either form requires the individual to identify the eligible month(s), monthly payment amounts, dates of payment, and total premiums paid for which reimbursement is being requested.

Individuals must attach proof of payment with the submitted request form. If approved, the HCTC Program posts the reimbursement as a credit on the individual's HCTC account. If denied, a letter is mailed to the individual to explain why his or her request for reimbursement was not approved. An individual's reimbursement claim can be denied for various reasons, such as ineligibility, the reimbursement request is from a previous tax year, or the individual is not currently registered for the Advance Monthly Payment Option.

Our review showed that the IRS received 7,798 reimbursement claims submitted by individuals from September 2009 through January 2010. As of January 27, 2010, the IRS processed and approved 6,824 reimbursements totaling more than \$4.8 million. Our review of a statistically

⁹ The HCTC Program Kit has the Monthly HCTC Registration Form and the Reimbursement Request Form.



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valid sample of 135 reimbursement credits for 74 individuals identified that reimbursement credits were timely (on average claims were processed within 50 calendar days) and accurately processed with amounts requested for reimbursement supported by proof of payment.

The IRS processed and approved 6,824 HCTC reimbursement claims as of January 27, 2010, totaling more than \$4.8 million.

However, our review found the reconciliation that HCTC Program management currently performs for reimbursement credits is a time-consuming manual process and increases the risk of potential errors. The reconciliation assists the IRS in ensuring the accuracy of the amounts provided for reimbursement. The

reconciliation requires the HCTC Program manager to compare each line of the Reimbursement General Ledger Report to the Posted Report showing the reimbursement credits that have posted to individuals' accounts. In December 2009, the Reimbursement General Ledger report had 3,083 line items that had to be manually compared to the report of posted reimbursement credits to confirm the accuracy of the information.

HCTC management indicated that it is very time consuming to manually compare approximately 1,702 reimbursement credits on the individuals' accounts to the accounting records. HCTC management is aware of the benefits of automating reconciliation processes. Representatives from the HCTC Project Office indicated that they elected to perform the reconciliation manually to monitor the processing of reimbursement claims to identify any problems with processing and to identify opportunities to automate steps in the process. Subsequent to our discussion with IRS management, the process of reconciling reimbursement credits was automated in February 2010. Management noted that additional report enhancements are planned.

Improvements Can Be Made to Increase the Efficiency of the Advance Monthly Payment Processing

Although we found that payments were timely and accurately processed, the IRS will face challenges if there is a significant increase in the number of monthly enrolled participants as a result of provisions included in the Recovery Act or the newly enacted health reform legislation. Prior to the Recovery Act, the IRS estimated the number of potentially eligible individuals to be approximately 300,000 in any given month. Estimates in support of the provisions in the Recovery Act indicate 570,000 individuals could be eligible. Notwithstanding the estimates of potential participants, IRS management noted that the HCTC Program and systems¹⁰ are built to support only 57,000 enrolled participants.

¹⁰ The HCTC Program has a financial system that maintains financial and health plan data for HCTC participants enrolled in the Advance Monthly Payment Option and a customer management system that maintains case related data for HCTC participants.



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The number of enrolled individuals participating in the Advance Monthly Payment Option increased by 67 percent from April 2009 (implementation of the Recovery Act) to April 2010. Participation is low when compared with the large number of individuals that are eligible to participate. However, results of surveys required by the Recovery Act may further increase participation. To address concerns regarding low participation, the Recovery Act requires the Secretary of the Treasury to perform a biennial survey of individuals eligible to participate in the HCTC Program. The survey and report would include both HCTC participants and non-HCTC participants and may help identify potential causes for the low participation. Results of these surveys may be used to help increase participation.

Further, the Patient Protection and Affordable Care Act¹¹ and the Health Care and Education Reconciliation Act of 2010¹² created another refundable tax credit (Premium Assistance Credit) for eligible individuals and families who purchase health insurance through an exchange. Like the HCTC, the Premium Assistance Credit allows for the advance payment of the premium assistance tax credits. The Federal Government would pay the Premium Assistance Credit amount directly to the individual's insurance plan. Current projections indicate potentially 29 million individuals would receive these Federal premium subsidies, estimated to cost \$511 billion through Fiscal Year 2019. If it is necessary for the HCTC Program office to be involved in the administration of the Premium Assistance Credit, it would present additional Program administration challenges.

The current Advance Monthly Payment process requires significant coordination between multiple Federal agencies, contractors, and the IRS. Payments are received at the lockbox site and processed and deposited. Once this is completed, a payment file is transmitted to the HCTC financial system. This starts a complex process to add the Federal Government portion of the premium to the individual's portion and then eventually the payment is sent to the Health Plan Administrator. Because the HCTC financial system is separate from the IRS' systems for tax accounts, each year transactions have to be posted to the individual's tax account reflecting monthly individual and Federal Government HCTC payments.

To process Advance Monthly Payments, the IRS was required to create the HCTC financial system, which is separate from IRS' systems for tax accounts.

Although a number of electronic systems are involved in the processing of payments, significant manual involvement is needed to ensure payments are accurately processed. Reconciliations identify discrepancies regarding payments and have to be manually researched and resolved. For instance, each month the Open Items on Closed Contract Reconciliation identifies all individuals with a credit balance on their account. These accounts must be manually reviewed to determine whether the outstanding credits on individual accounts should be refunded. In September 2009,

¹¹ Pub. L. No. 111-148, 124 Stat. 119 (2010).

¹² Pub. L. No. 111-152, 124 Stat. 1029 (2010).



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this reconciliation identified 148 individuals with credit balances. It took 2 accountants 3 to 4 days to review these accounts and to take the appropriate actions. The IRS issues a refund to an individual when the credit on his or her account is a result of contract cancellation. However, individuals can have credits on their HCTC account for a variety of reasons. Often, an individual makes an overpayment in the current month to cover premiums in future months, and the credit from the overpayment stays on the individual's account until the IRS draws it down to pay for the next month's participant portion of the premium.

Overall, the IRS has effectively administered the HCTC but its capacity is very limited (maximum capacity is 57,000 enrolled participants). In 2007, the IRS performed a study to identify Program administration and system needs if participation increases above 57,000. This study included an analysis of administrative costs and actions that would need to be taken should the number of enrolled participants increase above the maximum level of 57,000 individuals. The study noted the significant interaction that the Program requires with both the participant and the Health Plan Administrator. The study found that the monthly HCTC Program interacts with an average participant 30 to 35 times per year as well as at least 12 interactions with a Health Plan Administrator.

Processes are needed to ensure the accuracy and consistency of information included in the various payment processing systems

The Advance Monthly Payment Option requires coordination between multiple entities and several computer systems. As a result, the payment processing systems are vulnerable to inconsistencies because of the continual need for exchanging payment data between the HCTC and IRS systems.

Identification of Health Plan Administrators participating in the Advanced Monthly Payment Program is inconsistent between the HCTC and IRS systems. Our comparison of Health Plan Administrators contained on the IRS' financial system¹³ showed 183 more Health Plan Administrators than listed on the HCTC financial system. HCTC Program management indicated that the list we received on November 6, 2009, was the HCTC master list of Health Plan Administrators that have or currently are participating in the Advance Monthly Payment Option. These 183 Health Plan Administrators were created on the IRS' financial system during the period September 9, 2004, to November 6, 2009. In addition, we identified another 20 Health Plan Administrators for which the Taxpayer Identification Number (TIN)¹⁴ listed for the Health Plan Administrator was not consistent between the IRS financial system and the HCTC

¹³ The IRS financial system is a commercial-off-the-shelf software package, designated as the Integrated Financial System.

¹⁴ A TIN is a nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, the TIN is an Employer Identification Number, a Social Security Number, or an Individual TIN.



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financial system. Eight of these 20 Health Plan Administrators received 419 payments for individuals' medical premiums totaling \$229,127.68 in Calendar Year 2008.

The IRS financial system routinely interfaces with the external HCTC financial system¹⁵ at the IRS Computing Center located in Sterling, Virginia. The IRS financial system adds the Federal Government portion to the individuals' payments and is the system that issues the monthly payments for individuals' health premiums to the Health Plan Administrators. Therefore, both systems should reflect the same Health Plan Administrators participating in the Advance Monthly Payment Option.

Inconsistencies were identified between payment transactions reflected on the HCTC financial system and payment transactions on the participating individuals' tax accounts. Our review of Calendar Year 2008 transactions identified 174 individuals that received a Health Coverage Tax Credit (HCTC) Advance Payments (Form 1099-H)¹⁶ with an amount that did not agree with their HCTC amounts on their tax account. Inaccurate information on Forms 1099-H can result in individuals erroneously claiming an incorrect HCTC amount when filing a tax return. For these 174 individuals, the total amount reflected on their Form 1099-H did not match the amount of Federal Government payments reflected on their IRS tax accounts. These discrepancies totaled \$60,534. The IRS has not developed a process to ensure that the Federal Government payments reported on IRS tax accounts are consistent with those reported to taxpayers on Forms 1099-H.

IRS tax account information for individuals participating in the Advance Monthly Payment Option should accurately reflect the total payments paid by the individual and the total subsidized payments paid by the Federal Government during the year. The IRS issues a Form 1099-H to each individual participating in the Advance Monthly Payment Option to show him or her the amount of the Federal Government subsidy that was paid each month of a year for his or her medical premiums. An individual can use this information to determine the amount he or she can claim at year-end on his or her annual tax return.

HCTC records contained some invalid TINs for Health Plan Administrators. Our comparison of Health Plan Administrator TINs included in the HCTC systems to IRS tax records identified 34 (1 percent) of 2,671 Health Plan Administrators on the HCTC's November 6, 2009, list as having an invalid TINs. An invalid TIN is one that has not been assigned by the IRS to the Health Plan Administrator. When we brought this issue to the attention of HCTC Program management, they responded that the accuracy of a Health Plan Administrator's TIN is not imperative as this information is not relevant for the HCTC systems.

Notwithstanding management's position, we believe that the IRS should ensure that the Health Plan Administrator TINs are accurately reflected in HCTC systems. Based on our review of the

¹⁵ The HCTC system is an IRS system outside of the IRS network and maintained by contractors.

¹⁶ Form 1099-H is used to report advance payments from the Department of the Treasury (Government portion) on behalf of eligible individuals.



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registration forms submitted to the HCTC Program by these 34 Health Plan Administrators, 16 (47 percent) of the invalid TINs were the result of an HCTC employee not correctly inputting the information into the HCTC systems.

Processes should be established to ensure HCTC eligibility indicators are added to the associated individuals' tax accounts

Our review identified that eligibility indicators for 3,661 individuals in Calendar Year 2009 could not be posted to the respective individuals' IRS tax account. HCTC Program management has indicated that they are aware that indicators are unable to post to some of the eligible individuals' tax accounts. Management noted that a business decision was made to not resolve these unpostable conditions because they represent less than 1 percent of the accounts for which an indicator is added.

However, in our review of a statistically valid sample of 111 of the 3,661 unpostable accounts, we were able to locate the associated IRS tax account for 55 (50 percent) of the individuals for which the indicator was unpostable. For the remaining 56, there was no record of a tax account for the individual for Calendar Year 2009; therefore, the IRS would have been unable to post the indicator. The IRS should identify unpostable eligibility indicators and, once identified, research those individuals for whom a tax account exists to add the indicator.

Every December, the IRS generates a tape from the HCTC customer management system¹⁷ that identifies individuals eligible for the HCTC. This tape is used to update the IRS tax account information that allows the individual to claim the HCTC on his or her annual tax return. Without this indicator, the individual cannot receive money for the premium paid throughout the year. For example:

¹⁷ The customer management system maintains eligibility, payment history, policy, health plan, and case-related data for all HCTC participants.



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Example

Individual A makes monthly premium payments directly to his or her health provider throughout the year and claims the HCTC on his or her annual tax return and attaches Form 8885 with the required supporting documentation. Because the HCTC indicator is not present on the individual's IRS tax account, the HCTC is disallowed and the tax return is sent to the Error Resolution function and tax examiners will correspond with the taxpayer. The individual would be required to contact his or her State agency or the PBGC to obtain evidence that he or she is eligible for the HCTC. Once the individual receives the evidence of eligibility, that evidence would have to be forwarded to the HCTC Program and ultimately worked by a post-processing function, IRS Accounts Management. This process will needlessly delay the individual from receiving the HCTC to which he or she is entitled.

Not establishing a process to resolve unpostable situations can have a negative impact on these individuals and result in taxpayer burden. If an individual legitimately elects to claim both the monthly credit and the year-end credit, they could not receive the year-end credit because there is no eligibility indicator on the IRS tax account because the unpostable condition was not resolved. In addition, an individual would receive a Form 1099-H generated from the HCTC customer management system; however, the advance payment information on the Form 1099-H would not be reflected on the IRS tax account because the eligibility and advance payments did not post for that individual.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Develop a process to ensure Health Plan Administrators reflected on the HCTC systems are consistent with those reflected on the IRS systems. This should include ensuring Health Plan Administrators are consistently listed on the IRS financial system and the HCTC financial system and Health Plan Administrators' TINs are valid.

Management's Response: The IRS agreed with this recommendation. A joint effort was launched August 2, 2010, by the Beckley Finance Center staff and the HCTC Payments Processing Team to review, analyze, and correct discrepancies between the Integrated Financial System and HCTC system.

Also, the HCTC Payments Processing Team and the Beckley Finance Center staff will conduct joint quarterly quality reviews of HCTC and Integrated Financial System vendor extracts, to ensure both systems accurately reflect the same data. Any discrepancies will be worked jointly to ensure data integrity between the two systems.

Recommendation 2: Develop a process to ensure individuals participating in the Advance Monthly Payment Option receive accurate Form 1099-H payment information.



*Health Coverage Tax Credit Recovery
Act Provisions Were Timely Implemented, but
Program Capacity Is Limited*



Management's Response: The IRS disagreed with this recommendation because individuals participating in the Advance Monthly Payment Option do receive accurate Form 1099-H payment information. Data contained on Form 1099-H are for information only. If payment information is updated or changed, a corrected Form 1099-H is issued to the taxpayer and to the IRS. All IRS HCTC systems correctly reflect accurate payment data.

Office of Audit Comment: Notwithstanding IRS management's response, some individuals did receive inaccurate Form 1099-H information. As we detailed in our report, 174 individuals received a Form 1099-H with an amount that did not agree with the HCTC amounts on their tax account. In addition, the IRS indicates that the Form 1099-H is for information only. We agree that the Form 1099-H provides information to individuals on the amount of HCTC Federal Government payments, which is the reason that it should be accurate. Individuals receiving Forms 1099-H use this information when preparing their tax returns.

Recommendation 3: Develop a process to identify and resolve unpostable records to ensure eligibility indicators are added to individuals' tax accounts.

Management's Response: The IRS agreed with this recommendation; however, additional corrective action is not necessary. The IRS submitted a Unified Work Request that was approved by the Modernization and Information Technology Services organization for Tax Year 2011 to identify unpostable transactions and generate a report. This report will be used to manually post these transactions to the Master File.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the efficiency and effectiveness of HCTC payment processing. To accomplish our objective, we:

- I. Determined whether reconciliations are performed to ensure accuracy of monthly HCTC financial records.
 - A. Determined whether reconciliations for Calendar Year 2008 and Calendar Year 2009, through September, were performed timely.
 - B. Assessed whether the reconciliations for Calendar Year 2008 and Calendar Year 2009, through September, identified discrepancies and, if so, whether corrective actions were taken to address the discrepancies.
 - C. Obtained the reconciliations completed in December 2008 to determine whether discrepancies identified were resolved timely and completed correctly.
 - D. Determined the methodology that the HCTC Program uses to ensure reconciliations are effectively conducted.
- II. Determined whether payments are accurately calculated and timely processed.
 - A. Determined whether parameters have been established to limit payment of an individual's health insurance premium to a designated price level.
 - B. Obtained the volumes and amounts of Advance Monthly payments to Health Plan Administrators for Calendar Years 2007, 2008, and 2009.
 - C. Selected a statistically valid sample of 150 individuals with payments from the population of 20,434 IRS Returns Processing Individual Master File¹ records for Tax Year 2008 cycle 200930 that had a Transaction Code 971 (Miscellaneous transaction that performs different actions based on the Action Code) with Action Code 170 (Represents an individual's payment for the Advance Monthly Payment Option) and Action Code 171 (Represents the Government's 65 percent portion of the individual's monthly premium). We assessed the reliability of the Returns Processing Individual Master File by performing run-to-run balancing and reviewing a sample of 25 records against the IRS Integrated Data Retrieval System² and determined the data met extract

¹ The IRS database that maintains transactions or records of individual tax accounts.

² IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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- criteria and were valid per IRS files. Our sample size was based on a 90 percent confidence level, a 5 percent error rate, and ± 3 percent precision level. We reviewed the individuals' Advance Monthly Payments in Calendar Year 2008 and found that the payments were timely and accurately processed.³
- D. Matched 20,434 IRS Returns Processing Individual Master File records for Tax Year 2008 cycle 200930 that had a Transaction Code 971 (Miscellaneous transaction that performs different actions based on the Action Code) with Action Code 171 (Represents the Government's 65 percent portion of the individual's monthly premium) to a computer extract of the Tax Year 2008 Health Coverage Tax Credit (HCTC) Advance Payments (Form 1099-H)⁴ to determine whether the amount of Federal subsidized payments on the IRS Master File⁵ is the same amount as reported on the Form 1099-H. We assessed the reliability of the Returns Processing Individual Master File by performing run-to-run balancing and reviewing a sample of 25 records to the IRS Integrated Data Retrieval System and determined the data met extract criteria and were valid per IRS files. We validated the reliability of the Form 1099-H computer extract by reviewing a sample of 25 records on the Integrated Data Retrieval System to verify eligibility for the HCTC Program and to confirm payments were made on behalf of the eligible participants.
- E. Obtained a list from the IRS with 3,661 transactions pertaining to the Advance Monthly Payment Option that did not post to individuals' tax accounts. We selected a statistically valid sample of 111 transactions from the population of 3,661 unpostable transactions to determine whether a tax account existed to post a transaction. Our sample size was determined based on a 95 percent confidence level, 5 percent expected error rate, and ± 4 percent precision level. For each of the 111 transactions, we used the Integrated Data Retrieval System to determine whether an individual's entity data were on IRS files.
- III. Reviewed the HCTC Program's Health Plan Administrators on file to determine the validity of the TINs and to ascertain whether the information is consistent with IRS' Health Plan Administrators on file.
- A. Obtained a file containing 2,671 Health Plan Administrators from the HCTC Program on November 6, 2009, and obtained a file containing 3,060 Health Plan

³ We reviewed only 90 of the 150 individuals with payments in Calendar Year 2008 because the HCTC Program management could not provide documentation for the remaining individuals due to the burden on the HCTC Program's limited resources.

⁴ Form 1099-H is used to report advance payments from the Department of the Treasury (Government portion) on behalf of eligible individuals.

⁵ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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- Administrators on the IRS' Integrated Procurement System⁶ from the IRS Beckley Finance Center on January 12, 2010. We also obtained a file of 3,437 Health Plan Administrators on the IRS' Integrated Financial System⁷ as of April 27, 2010, which showed the date each Health Plan Administrator was created in the Integrated Financial System. We compared the HCTC Program file of Health Plan Administrators to the IRS files of Health Plan Administrators to determine whether the files were consistent and reflected the same Health Plan Administrators participating in the Advance Monthly Payment Program as of November 6, 2009.
- B. Obtained a file containing 2,671 Health Plan Administrators from the HCTC Program on November 6, 2009. We matched the HCTC Program file of Health Plan Administrators to the IRS Business Master File⁸ to determine the validity of the TINs. We assessed the reliability of the Business Master File data by performing a run-to-run balancing and reviewing a sample of 25 records against the IRS Integrated Data Retrieval System and determined the data met extract criteria and were valid per IRS files. We determined whether the American Recovery and Reinvestment Act of 2009 (Recovery Act)⁹ changes to the Advance Monthly Payment HCTC were implemented by the dates established by the legislation.
 - C. Used the March 2009 Summed Vendor Payment report for the March 26, 2009, payment run and March 30, 2009, payment run and the April 2009 Summed Vendor Payment report for the April 24, 2009, payment run and the April 28, 2009, payment run to verify whether the Federal Government subsidized payment was timely changed from 65 percent of an individual's monthly health insurance premium to 80 percent, as required by the HCTC provisions of the Recovery Act.
 - D. Obtained the IRS' Wage and Investment Division Scorecard Report to determine whether the IRS met the legislated date for implementing the reimbursement of health premiums paid when eligible and enrolling in the Advance Monthly Payment Option. We secured documentation to ascertain whether a training guide had been developed and procedures established to reimburse individuals eligible for the Advance Monthly Payment Option for health insurance payments they paid during the enrollment process and reviewed documentation to determine whether a review and approval process of the reimbursement credits was performed before disbursement by the IRS. In addition, we selected a statistically valid sample of 150 individuals from a

⁶ The IRS procurement system, designated as the Integrated Procurement System, is used to track obligations, create solicitations and awards, handle vendor files, and generate reports.

⁷ The IRS financial system is a commercial off-the-shelf software package, designated as the Integrated Financial System.

⁸ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

⁹ Pub. L. No. 111-5, 123 Stat. 115 (2009).



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population of 4,390 individuals who submitted claims for reimbursement credits from September 1, 2009, through January 31, 2010. Our sample size was determined based on a 95 percent confidence level, 50 percent expected error rate, and ± 8 percent precision level. We reviewed reimbursement claims with supporting proof of payment and reimbursement credit details to determine whether the claims were timely and accurately processed.¹⁰

- IV. Interviewed HCTC Program management and obtained documentation to determine whether the IRS has a process to provide customer service to individuals participating in the Advance Monthly Payment Option and how the IRS tracks and monitors these individuals' issues with the Advance Monthly Payment Option.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the Recovery Act; Internal Revenue Manual; *Standards for Internal Control in the Federal Government*;¹¹ and HCTC Program policies, procedures, and practices for the Advance Monthly Payment Option. We evaluated these controls by interviewing management, reviewing applicable information, analyzing advance payment data on the Master File and Form 1099-H, reviewing a sample of Advance Monthly Payments, and examining Health Plan Administrator information.

¹⁰ We reviewed only 74 of the 150 individuals with submitted claims for reimbursement credits from September 1, 2009, through January 31, 2010, because the HCTC Program management could not provide documentation for the remaining individuals due to the burden on HCTC's limited resources.

¹¹ GAO/AIMD-00-21.3.1, dated November 1999.



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Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)
Russell P. Martin, Director
Edward Gorman, Audit Manager
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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division
SE:W:ETARC
Acting Program Manager, Health Coverage Tax Credit, Wage and Investment Division
SE:W:HCTC
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division
SE:W:S:PRA:PEI



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Appendix IV

Health Coverage Tax Credit (Form 8885)

Form 8885 Department of the Treasury Internal Revenue Service	Health Coverage Tax Credit ► Attach to Form 1040, Form 1040NR, Form 1040-SS, or Form 1040-PR.	OMB No. 1545-0074 2008 Attachment Sequence No. 134												
Name of recipient (if both spouses are recipients, complete a separate form for each spouse)		Recipient's social security number												
<p>Before you begin: See Definitions and Special Rules that begin on page 2.</p>														
<div style="border: 1px solid black; padding: 5px;"> Do not complete this form if you can be claimed as a dependent on someone else's 2008 tax return. </div>														
<p>Part I Complete This Part To See if You Are Eligible To Take This Credit</p>														
<p>1 Check the boxes below for each month in 2008 that all of the following statements were true on the first day of that month.</p> <ul style="list-style-type: none"> • You were an eligible trade adjustment assistance (TAA) recipient, alternative TAA (ATAA) recipient, or Pension Benefit Guaranty Corporation (PBGC) pension recipient. • You were covered by a qualified health insurance plan for which you paid the premiums, or your portion of the premiums, directly to your health plan. • You were not entitled to Medicare Part A or enrolled in Medicare Part B. • You were not enrolled in Medicaid or the State Children's Health Insurance Program (SCHIP). • You were not enrolled in the Federal Employees Health Benefits Program (FEHBP) or eligible to receive benefits under the U.S. military health system (TRICARE). • You were not imprisoned under federal, state, or local authority. • You were not covered by any employer-sponsored health insurance plan (see the instructions for line 1 on page 3). 														
<p> <input type="checkbox"/> January <input type="checkbox"/> February <input type="checkbox"/> March <input type="checkbox"/> April <input type="checkbox"/> May <input type="checkbox"/> June <input type="checkbox"/> July <input type="checkbox"/> August <input type="checkbox"/> September <input type="checkbox"/> October <input type="checkbox"/> November <input type="checkbox"/> December </p>														
<p>Part II Health Coverage Tax Credit</p>														
<p>2 Amount paid for qualified health insurance coverage for all months checked on line 1 (see instructions on page 3). Do not include on line 2 any qualified health insurance premiums paid to "U.S. Treasury-HCTC" or any insurance premiums on coverage that was actually paid for with a National Emergency Grant. Also, do not include any advance (monthly) payments from Form 1099-H, box 1</p>		<table border="1" style="width:100%; border-collapse: collapse;"> <tr><td style="width:20px; text-align: center;">2</td><td style="width:100px; height: 40px;"></td><td style="width:100px; height: 40px;"></td></tr> <tr><td style="text-align: center;">3</td><td style="height: 40px;"></td><td style="height: 40px;"></td></tr> <tr><td style="text-align: center;">4</td><td style="height: 40px;"></td><td style="height: 40px;"></td></tr> <tr><td style="text-align: center;">5</td><td style="height: 40px;"></td><td style="height: 40px;"></td></tr> </table>	2			3			4			5		
2														
3														
4														
5														
<div style="border: 1px solid black; border-radius: 15px; padding: 10px; margin: 10px 0;"> <div style="display: flex; align-items: center;"> <p>You must attach the required documents listed on page 4 for any amounts included on line 2. If you do not attach the required documents, your credit will be disallowed.</p> </div> </div>														
<p>3 Enter the total amount of any Archer MSA and health savings account distributions used to pay for qualified health insurance coverage for all months checked on line 1</p>														
<p>4 Subtract line 3 from line 2. If zero or less, stop; you cannot take the credit</p>														
<p>5 Health coverage tax credit. Multiply line 4 by 65% (.65). Enter the result here and on Form 1040, line 68 (check box d); Form 1040NR, line 63 (check box c); Form 1040-SS, line 9; or Form 1040-PR, line 9</p>														
<p>For Paperwork Reduction Act Notice, see page 4. Cat. No. 34641D Form 8885 (2008)</p>														



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Appendix V

Role of Each Location in the Health Coverage Tax Credit Program

- **Washington, D.C.** (*HCTC Program office*)

The Headquarters office in Washington, D.C., provides oversight of the monthly HCTC Program and works in conjunction with the Finance and Accounting office in Houston, Texas, the Beckley Finance Center in Beckley, West Virginia, and the U.S. Bank.¹ They develop and maintain policy, certify manual and electronic payments for processing, and resolve erroneous payment issues. They are responsible for resolving management issues with the U.S. Bank, developing and maintaining work process flows and desk guides, performing Program Management Review for the Payment Processing Operations team, and resolving escalated Health Plan Administrator issues. In response to a prior Treasury Inspector General for Tax Administration recommendation,² the HCTC Program office agreed to establish a manual process to allow the association of the taxpayer receivable records in a subsidiary ledger with the Advance Payment Program taxpayer account ledger.

- **Waterloo, Iowa** (*Customer Contact Center*)

The Customer Service Contact Center is located in Waterloo, Iowa, and is a subcontractor that processes registrations, answers questions, and resolves participant issues. The customer service representatives collect data, resolve cases, update participant information, handle registration and payment inquiries, confirm qualified health coverage, verify invoice documentation, and verify health insurance premiums and premium changes.

- **Peoria, Illinois** (*Distribution Center*)

The Distribution Center is located in Peoria, Illinois, and distributes program kits, registration forms, program brochures, participant letters, and monthly invoices.

¹ The U.S. Bank in St. Louis, Missouri, is the lockbox site that processes incoming individuals' monthly payments.

² *Financial Controls Over the Health Coverage Tax Credit Advance Payment Process Need to be Enhanced* (Reference Number 2006-10-085, dated May 26, 2006).



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- **St. Louis, Missouri** (*Lockbox office*)

The U.S. Bank in St. Louis, Missouri, is the lockbox site that processes incoming individuals' monthly payments. The lockbox site determines whether the participant is eligible for the HCTC Program and, if not, mails a reject letter with the participant's check to the participant. However, the settlement of the checks (that is, deposit) is performed by Citibank, and settlement of credit card payments is done by the Department of the Treasury through the Pay.gov web site. The lockbox site also processes Health Plan Administrator returned funds with the HCTC billion account number.³

- **Houston, Texas** (*HCTC Finance and Accounting office*)

The contractor's (Accenture) Finance and Accounting office is comprised of two sections: General Accounting and Reporting/Systems Control and Health Plan Administrator Outreach/Case Management. This office is responsible for all accounting, payment processing, and vendor-related activities, such as participant account maintenance; Health Plan Administrator interactions and account maintenance; vendor set-up in the IRS financial system; Health Plan Administrator returned funds and bulk premium changes; and reconciliation of the HCTC general ledger.

- **San Antonio, Texas** (*Delivery Center*)

The HCTC Program plans to move all accounting and financial activities for the Advance Monthly Payment Option from Houston, Texas, to San Antonio, Texas. Fiscal Year 2010 was the transition year for this move, with the San Antonio Delivery Center operational in Fiscal Year 2009. Starting September 2009, the San Antonio Delivery Center began processing claims for reimbursement for individuals waiting to enroll in the Advance Monthly Payment Option.

- **Beckley, West Virginia** (*Beckley Finance Center*)

The Beckley Finance Center in Beckley, West Virginia, is part of the IRS Chief Financial Office. The Beckley Finance Center is responsible for processing payments for manual transactions and electronic payment files, and performs monthly reconciliations for the IRS general ledger. The Beckley Finance Center supports the HCTC Payment Processing Operations on a daily basis and performs Health Plan Administrator vendor set-up, manual payment processing, payment file processing support, post-payment file reconciliation reports, payment cancellations, and reconciliation of HCTC appropriations to the IRS general ledger.

³ Health Plan Administrators mail checks to the lockbox site with a notation that the monies should be applied to the billion account number. These checks are deposited to the billion account and held there until research is performed by the HCTC Program to determine the proper application of the monies.



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- **Sterling, Virginia / Reston, Virginia** (*Computer Systems/Computer Support*)

The HCTC server is physically located in Sterling, Virginia. The contractor's computer staff is located in Reston, Virginia, and provides the systems operations support for the HCTC Program. The U.S. Bank lockbox site in St. Louis provides daily payment reports to Reston, and the data are uploaded into the HCTC financial system where the individuals' accounts are updated with the payments.

- **Detroit, Michigan** (*Secure Intermediary Site for Transmission of Files*)

This site provides a place for receipt of data from an external HCTC system⁴ and transmission of data to an external HCTC system.

⁴ The HCTC system is an IRS system comprised of two network systems that are outside of the IRS network and maintained by contractors.



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Appendix VI

*The Health Coverage Tax Credit (HCTC)
Reimbursement Request (Form 14095)*

Form 14095 (Rev. February 2010)	Department of the Treasury—Internal Revenue Service The Health Coverage Tax Credit (HCTC) Reimbursement Request	OMB No. 1545-2152
Part 1: Provide information about yourself		
Name (first, middle initial, last, suffix)	Social Security Number	
Mailing Address (street number)	City, State, Zip	
Primary Telephone Number (include area code)		
Part 2: Request reimbursement		
Check the box next to each month of this calendar year for which you are requesting reimbursement. For each month checked, you certify that you 1) met all eligibility requirements for the HCTC and 2) that you made payments directly to a qualified health plan for that month.		
<input type="checkbox"/> January <input type="checkbox"/> February <input type="checkbox"/> March <input type="checkbox"/> April <input type="checkbox"/> May <input type="checkbox"/> June <input type="checkbox"/> July <input type="checkbox"/> August <input type="checkbox"/> September <input type="checkbox"/> October <input type="checkbox"/> November <input type="checkbox"/> December		
In the tables below, enter the information requested for EACH MONTH checked above. If you are requesting reimbursement for more than two months, copy this form and complete Part 2 for those additional months.		
Month and year for which you are requesting reimbursement.		Month Year
1	Total monthly premium amount you paid directly to your qualified health plan (for yourself and your family members).	
2	Amount you paid for separate dental or vision benefits. These benefits do not qualify for the HCTC.	
3	Amount you paid for family members who are not qualified for the HCTC, including yourself if you are enrolled in Medicare.	
4	Amount of National Emergency Grant (NEG) payments received.	
Month and year for which you are requesting reimbursement.		Month Year
1	Total monthly premium amount you paid directly to your qualified health plan (for yourself and your family members).	
2	Amount you paid for separate dental or vision benefits. These benefits do not qualify for the HCTC.	
3	Amount you paid for family members who are not qualified for the HCTC, including yourself if you are enrolled in Medicare.	
4	Amount of National Emergency Grant (NEG) payments received.	
Part 3: Provide information about your qualified health insurance		
Check the box below that applies to the months for which you've requested reimbursement:		
<input type="checkbox"/> I certify that the health plan for this reimbursement request is the same as the qualified health plan listed on my Monthly HCTC Registration.		
<input type="checkbox"/> The health plan for this reimbursement request is different from the qualified health plan listed on my Monthly HCTC Registration. If so, complete Part 5 of the HCTC Registration Update Form (13704) and attach it to this form. This form can be obtained by going to www.irs.gov/hctc .		



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Part 4: Gather supporting documents

Include copies of 1) health insurance bills or payment coupons and 2) proof of payment for the months in Part 2 of this form.

1) Your health insurance bills or payment coupons must show the following information:

- Your name (or name of the policy holder)
- Name of your health plan
- Your monthly premium amount
- Dates of coverage
- Your health plan identification number

Note: If your qualified health plan does not provide members with an insurance bill or COBRA payment coupon, you must provide health plan enrollment documents or an official letter from your health plan that has the required information listed in the bullets above.

2) Acceptable proof of payment includes:

- Cancelled checks (copy of front and back)
- Bank statements
- Credit card statements
- Money order receipts

Note: Your proof of payment must indicate the amount paid and to whom it was paid. If you do not have one of these proofs of payment, contact your health plan for a record of your payment(s).

Part 5: Sign and date this form

Under penalties of perjury, I declare that the information furnished on this form with regard to myself and to any family member(s), and any attachments to it, is true, correct, and complete. I understand that a knowing and willfully false statement on this form can result in my disqualification from the monthly HCTC program. By signing, I also agree to allow the IRS to share my eligibility status and payment information with my health plan.

Signature	Full Name (print)	Date
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Health Coverage Tax Credit Recovery
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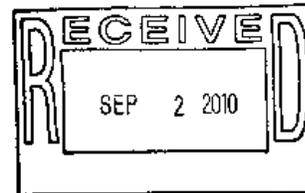


Appendix VII

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30302



September 2, 2010

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. *Richard Byrd, Jr.*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report - Health Coverage Tax Credit Recovery Act
Provisions Were Timely Implemented, but Program Capacity Is
Limited (Audit # 201040106)

We have reviewed the subject draft report and appreciate your review of the IRS' Health Coverage Tax Credit (HCTC) Program and our implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act) provisions. We appreciate your acknowledgement that the HCTC Program Office ensures accurate and timely processing of payments; timely and accurately implemented provisions of the Recovery Act; and participation in the Monthly Credit Option has increased since the Recovery Act provisions took effect.

The IRS has administered the HCTC Program since it was created in 2002. The tax credit is designed to provide assistance paying for health insurance to a select group of individuals who might otherwise be uninsured. For eligible taxpayers, the HCTC makes health care insurance more affordable by paying a substantial portion of their health insurance premiums.

The HCTC Recovery Act provisions included increasing the HCTC portion of health premiums paid from 65 to 80 percent, reimbursing the taxpayers' portion of premiums paid during the enrollment period, allowing family members to continue receiving benefits after certain life events, and expanding taxpayer eligibility in the Program. Effective implementation of these provisions was critical to provide taxpayers the benefits mandated by the Recovery Act.

Attached are our specific comments on your recommendations. If you have any questions, please contact me, or a member of your staff may contact Rinaldi Boykin, Acting Program Manager, Health Coverage Tax Credit Office, at (202) 293-9600.

Attachment



*Health Coverage Tax Credit Recovery
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Attachment

The Commissioner, Wage and Investment Division, should.

RECOMMENDATION 1: Develop a process to ensure Health Plan Administrators reflected on the HCTC systems are consistent with those reflected on the IRS systems. This should include ensuring Health Plan Administrators are consistently listed on the IRS financial system and the HCTC financial system and Health Plan Administrators TINs are valid

CORRECTIVE ACTION

We agree with this recommendation. A joint effort by the Beckley Finance Center (BFC) staff and the Health Coverage Tax Credit (HCTC) Payments Processing Team, to review, analyze, and correct discrepancies between the Integrated Financial System (IFS) and HCTC system, was launched August 2, 2010.

Also, the HCTC Payments Processing Team and the BFC staff will conduct joint quarterly quality reviews of HCTC and IFS vendor extracts, to ensure both systems accurately reflect the same data. Any discrepancies will be worked jointly to ensure data integrity between the two systems.

IMPLEMENTATION DATE

October 15, 2010

RESPONSIBLE OFFICIAL

Program Manager, Health Coverage Tax Credit Office, Wage and Investment Division, Funds Management Section, Beckley Finance Center

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2: Develop a process to ensure individuals participating in the Advanced Monthly Payment Option receive accurate Health Coverage Tax Credit (HCTC) Advance Payments (Form 1099-H) payment information.

CORRECTIVE ACTION

We disagree with this recommendation because individuals participating in the Advanced Monthly Payment Option do receive accurate Form 1099-H (Health Coverage Tax Credit (HCTC) Advance Payments) payment information. Data contained on Form 1099-H is for information only. If payment information is updated or changed, a corrected Form 1099-H is issued to the taxpayer and to the IRS. All IRS HCTC systems correctly reflect accurate payment data.



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2

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3: Develop a process to identify and resolve unpostable records to ensure eligibility indicators are added to individuals' tax accounts.

CORRECTIVE ACTION

We agree with this recommendation; however, additional corrective action is not necessary. We submitted a Unified Work Request, that was approved by Modernization and Information Technology Services for Tax Year 2011, to identify unpostable transactions and generate a report. This report will be used to manually post these transactions to the Master File.

IMPLEMENTATION DATE

Completed

RESPONSIBLE OFFICIAL

Program Manager, Health Coverage Tax Credit Office, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A